



**GOVERNOR DIRK KEMPTHORNE
BUDGET ADDRESS
BEFORE A JOINT SESSION OF THE 2ND REGULAR SESSION
OF THE 56TH IDAHO LEGISLATURE
January 9, 2002**

Mr. Speaker. Mr. President. Fellow Constitutional Officers. Distinguished members of the Legislature. Distinguished members of the Judiciary. Fellow citizens of Idaho.

Last year, you joined me in saluting the Secretary of State, Pete Cenarrusa, on the occasion of the 50th anniversary of when he began his public service as a member of this body.

Because of Pete's announcement of his retirement, this will be – at least for the time being – his last joint session in his capacity as an elected official.

Pete, congratulations on an exemplary career of serving your fellow citizens and your beloved state of Idaho.

Madam Chief Justice, I look forward at the end of my remarks to listen to the State of the Judiciary, and I will be escorted to the gallery where I will enjoy listening to your report.

Ladies and Gentlemen of the Legislature, I submit the Executive Budget Recommendations for Fiscal Year 2003 for your consideration and deliberation.

Our nation's longest economic expansion has officially ended. In March, just as you were finishing your legislative work and preparing to go home, our 10-year economic expansion was ending. And a national recession was about to begin.

And Idaho, like 43 other states, is feeling the effects of that recession.

As I said Monday night, just as Idaho families are cutting back, so is their government.

And here's why we have to cut back.

We are currently projecting \$111 million less revenue than originally thought when the FY 2002 budget was set last session and an additional \$13 million worth of recommended supplementals.

Given this revenue picture, here is how I have met my Constitutional responsibility to keep the budget in balance.

The surplus that we projected at the end of last session never materialized.

At every moment that I received information that the economy was under-performing, I immediately took action. In August and November, I ordered holdbacks totaling \$55 million.

Then, in December, with further bad news, I requested that we not make this year's transfer of approximately \$20 million into the budget stabilization fund.

I must affirm to you that it is absolutely necessary for us to make these holdbacks permanent, and that the budget stabilization fund transfer not be made.

Even with these actions, it still leaves us with a zero balance at the end of 2002, and no extra money to carry us into 2003.

And with six months of actual revenue collections still to come, there is no guarantee that we are out of the woods yet.

Even with anticipated revenue growth of 4.3 percent next year, our increasing inmate population and increasing Medicaid caseload will consume most of any new money we are projecting for FY 2003.

That doesn't leave any money to recommend a salary increase for state employees.

That doesn't leave any money to provide for one-time capital outlay for state agencies.

That doesn't leave any money for inflationary increases.

And that leaves us with no option other than to reduce agencies' base budgets for 2003.

As I said in my State of the State address: "Any tax structure that is designed to keep government immune from experiencing the very things that the people it serves are experiencing is a flawed tax structure."

Six months ago, I met with agency directors and warned them of the dark economic clouds looming on the horizon.

They have been equal to the task and made difficult decisions to meet the challenges of the budget that I recommend today. I commend this team of managers for their cooperation.

In addition to the 3 percent holdback becoming permanent, I am recommending further base reductions in most agencies.

If you look at the 2003 budget minus Correction, Public Schools, Medicaid and Veterans, agencies, on average, will receive 10 percent less next year than what they were originally slated to receive in 2002.

That is an average. It is not across-the-board. Each department was reviewed individually.

In my State of the State address on Monday, I mentioned several areas where I had to work hard to keep agencies at 100 percent of their original 2002 appropriation.

Medicaid's budget will actually increase 6 percent over what they received in FY 2002. And achieving that level requires critical reforms in runaway Medicaid spending. Without these reforms, the Medicaid budget will be much larger.

The Correction budget is at 100 percent of what they received last year, because of the sheer size of the prison population and the costs of incarceration.

Unfortunately, this is one of our growth industries. Any further cuts here go directly into removing substance abuse treatment and education.

If we do that, we're back to simply warehousing individuals, and we will see them continually return to prison – driving up the costs in the future.

The Public Schools' budget is at 100 percent -- \$933 million – but we are relying on some one-time money to get them there.

Last session, K-12's original appropriation of \$933 million was a healthy 6.8 percent increase – one that we all supported because of our commitment to education.

But when the revenues didn't materialize as expected, and I announced the holdbacks, public schools still ended up with a 4.3 percent increase in funding over the prior year.

Our school children are absolutely a priority and, still, many districts were able to do their part to find cost savings early in the year. I am not going to ask districts to do more than they have already done.

My budget recommends that this year's public school holdback of 2.5 percent be made permanent. I truly wish it were otherwise.

Many school districts have their own rainy day funds. This is a rainy day, and local districts will need to use some of their reserves -- just as I am recommending the use of \$20 million from the state's reserves this year.

I am recommending that we maintain the 4.3 percent increase for education in this current year, and, for '03, use one-time money from the budget stabilization fund and other sources to again hit \$933 million for public schools.

This requires a transfer of \$26 million from the budget stabilization fund into the General Fund for the public schools budget for 2003 to meet the needs of our students in the coming year.

That leaves a \$26 million balance in the budget stabilization fund -- which, given the current economic uncertainty, is as low as I believe we should draw this fund at this time.

Included as part of that \$933 million is \$4 million for Accountability and Assessment Standards. The State Board of Education will continue their efforts to meet full implementation of assessment standards by 2005.

Higher education is sharing in our financial challenges and it is an invaluable asset to the educational environment and to the entire state of Idaho.

We have great faculty and great leaders in our colleges and universities, and our greatest assets are the students.

I will continue to serve those students by recommending the continuation of the Promise Scholarship program by adding \$3 million to fully support the second year of the program. With over five thousand students enrolled thus far, this program is essential for higher education and economic development.

As you know, we set aside \$32 million in one-time funding last session to cover half of the \$64 million cost of renovating this magnificent statehouse.

Given the fact that every state agency is being asked to step to the plate and do their part during these difficult economic times, so, too, must the Capitol Commission.

My budget recommends that we take \$6.4 million out of the Capitol renovation money already set aside and use that to help school districts with critical safety needs.

Last year, House Bill 315, provided \$10 million for the School Safety Fund to help pay the interest for school districts that passed levies for new facilities.

The districts with the most critical needs have already taken advantage of this opportunity. And, in fact, the Troy and Wallace School Districts – which had sued the state – have now withdrawn from the lawsuit.

\$3.4 million of the money transferred out of the Capitol Commission project will go directly to the School Safety Fund. It is anticipated that this amount should cover the districts with the greatest immediate needs until a follow-on plan for school facilities is approved.

In the event additional funds are needed, I have earmarked the remaining \$3 million from the Capitol restoration project for this purpose and placed it in the Public Schools budget.

If that \$3 million is not needed for the School Safety Fund, then at the end of Fiscal Year 2003, it will be distributed to the public schools under the same methodology used to distribute the remaining year-end balance.

The Capitol Commission is already working with a contractor on a top-to-bottom review of the costs of the Capitol renovation project.

Just as I have asked every state agency, I'd like the Capitol Commission to consider some cost savings to this important and necessary project.

The restoration remains on schedule. And, the anticipated costs of moving the tenants out of this building into temporary facilities during the restoration are provided in the Public Works operating budget for FY 2003.

To address current year budget shortfalls, many other states are eliminating all construction projects. I have resisted that measure for several reasons.

Last year, I recommended, and you approved public works projects on every college and university campus in this state. Along with building other necessary state facilities, we were investing \$65 million to help build buildings, create jobs, and infuse dollars back into local economies throughout the state.

And it's working. In fact, we're getting more bids than anticipated at lower rates.

But, like the Capitol restoration project, I want the Permanent Building Fund to also do its part in this difficult budget year.

Last year, we set aside \$11 million to build 400 additional beds for female offenders.

Since that time, the Department has advised me of unanticipated costs of the project that make the initial plan unrealistic. In addition, the Department has just completed a study of our female offender population that suggests that more than 50

percent of the offenders are from the Treasure Valley area. Based on these developments, Correction Director Tom Beauclair recommended I revisit the original \$11 million project.

Based on his recommendation and our current budget situation, I am now proposing to reduce the appropriation for this project to \$4 million. With this funding, we will build 100 new community custody beds in the Treasure Valley – while still providing the substance abuse, education and job training programs these women need.

With my goal of keeping these women close to home and close to their families and children, I believe this is a prudent approach.

In addition, the Department will use federal grant funds to renovate an existing facility to provide 100 beds for male offenders.

Also, I am proposing that the state take the next step in dealing with the issue of substance abuse.

Last year, with your support, we expanded substance abuse treatment programs in our prisons, provided additional funding for community-based treatment for those outside of prison and began to implement drug courts in every judicial district.

I am now proposing to use \$300,000 in federal funds to fill another gap in our substance abuse system – the need for transitional or halfway house programming for those coming out of prison.

We also need to continue our work with juveniles.

Each year, counties receive block grant funds for juvenile probation and parole, as well as treatment programs. These funds are distributed on a population basis.

The impact of the 2000 census will cause some counties to win or lose this critical funding. In order to maintain the viability of the programs currently in place to deal with these troubled youth, I am proposing a \$300,000 block grant funding increase to basically keep the counties whole.

Families, children and senior citizens must remain the top priority for the Department of Health and Welfare and budget decisions will reflect that commitment.

In all, Health and Welfare's total '03 budget, will adequately provide essential services for those in need.

I have said that we will not cut Medicaid. But we must be vigilant in slowing its growth. Over the last two years, we have seen Medicaid grow at rates of 16 and 25 percent. Today, incorporating practical solutions, we can reduce this rate of growth.

At the same time, we must improve the quality of care we provide through the system. My recommendations provide the necessary tools to do both.

Medicaid was designed to be a safety net for our most needy citizens. Its clients are the elderly, children, the disabled, and pregnant women. It's a system that provides care when there are no other options. We must be mindful of this as we begin to look for solutions to this difficult problem.

I propose we expand our effective Healthy Connections program to most Medicaid recipients throughout the state. Healthy Connections helps to strengthen the doctor-patient bond. This relationship opens the line of communication and allows doctors to treat problems before they result in a costly visit to the emergency room.

For the individual on Medicaid, this will enhance their medical care.

There is a financial benefit to this program, too. On average, there is a cost savings of almost \$400 per recipient each year. With more than 20,000 new people expected to come onto Medicaid's rolls in the next 12 months, that savings will be significant.

Like many states, prescription drugs are quickly becoming our single largest Medicaid expense. Prescriptions are expected to cost almost 40 percent more this year than they did two years ago.

Here is another factor: the prescription drug benefit for those on Medicaid is absolutely unlimited.

I recommend that we tighten the prescription drug system by requiring prior authorization when there are more than four prescriptions being used at one time.

We will also require Medicaid recipients to use their prescriptions before seeking re-fills, exactly as the private sector has done for years.

For example, someone who has a prescription with two refills may, under our current Medicaid rules, fill a prescription today at one pharmacy, tomorrow at another pharmacy and on Friday at a third pharmacy.

Most private health care programs require you to wait until you've used 70, 80 or even 90 percent of your prescription, before seeking a refill. The state must adopt the best practices of the private sector in order to stem the growth of the system.

Let me be clear, this does not eliminate anyone's access to medically necessary drugs. Everyone on Medicaid who needs a prescription will have access through his or her doctor, and when medically necessary, beyond the four prescriptions.

I fully realize there are senior citizens, who may, because of their conditions have five, six or seven drugs. That's fine. We're simply saying that after the fourth one, you need to get the appropriate authorization.

Who will this effect? It will affect those who abuse the system. Those who move from doctor to doctor shopping for drugs. Those who stock pile their prescriptions and then allow them to go unused. Those who seek narcotics to sell on our streets will no longer have an unlimited supply.

Another way to help contain Medicaid costs is to align our reimbursement rates with those of Medicare. In some cases, the state pays five times more than the federal government for the same procedure.

There are also areas where reimbursement rates will increase. Access to primary care for children and psychiatric care for the mentally ill will improve as rates are realigned.

We must do a better job of managing the use of Medicaid services. In partnership with hospitals, we will conduct more timely reviews of inpatient services, including length-of-stay for our recipients.

This is not only a win for the state; it is a win for hospitals through reduced denial of claims.

As I have mentioned, there will be a 6 percent increase in the Medicaid budget. If we enact these measures now, we will reduce what would have been more than a \$30 million increase to a more manageable \$15 million increase.

If we do nothing, we will see costs continue to spiral out of control. We will see Medicaid growth that continues to outpace that of education and economic development. We will further compound budget problems for the state.

Now is the time to be diligent. Now is the time to act.

On Monday, I talked about the vision we had – even before the national recession began – to put in place aggressive economic development tools. I shared with you a long list of accomplishments that demonstrate these tools do work.

My budget keeps this vision intact. We have included \$3.5 million in the Department of Commerce's budget to continue these innovative economic development measures – which position Idaho to bounce back quickly from the national recession.

We must also be innovative and aggressive in the areas of agriculture and natural resources.

We have received over four million dollars in federal grants to help specialty crop producers in Idaho.

These one-time funds will help boost Idaho's struggling rural economy as we work with our farmers, ranchers and producers.

Our approach includes allocations for testing seed potatoes, research into alternative crops, and food safety issues.

Our new competitive grant program will directly address the challenges facing an industry that contributes approximately 20 percent to our state's economy.

Idaho is taking the lead in the battle against noxious weeds and invasive species. To address this concern, I issued an executive order creating the Idaho Invasive Species Council. We have received over \$2 million from the federal government to fight the spread of noxious weeds.

My budget recommendations also include funding for the Department of Lands to better manage the state's forests, which will result in reduced fire suppression costs in the future -- while simultaneously providing for healthy forests.

The Department of Water Resources budget also provides \$400,000 for the third phase of updating the Eastern Snake Plain Aquifer Model.

Let me now turn to an invaluable resource, the people that proudly serve their fellow citizens as state employees.

These men and women are working day in and day out to ensure that we continue to provide essential services during difficult economic times.

As with so many businesses, corporations, and farms throughout the state and the nation, salary increases will not occur this year. This will also be the case with Idaho state government. This is only a reflection of the economy, not on the worth of our employees. It's at times like these that we realize that they truly exemplify public service.

I have recommended that the pay scale for employees be advanced in order to allow competitive salaries with our private sector counterparts. Agencies will need to generate savings in order to provide any new salary increases.

My budget does include funding to help cover the rising cost of health insurance for state employees.

Ladies and Gentlemen, I present to you a budget that is balanced.

It is not without challenges.

There was nothing easy about assembling this budget.

It was not easy to propose Medicaid reforms.

It was not easy to find money to ensure that we are continuing to properly educate our children.

It was not easy to find base reductions in agencies and programs that have built up constituencies over the years.

But we are not immune from what is happening around us.

We have accommodated the revenue picture and adjusted our spending plan accordingly.

We've made cutbacks where we could; made transfers from fund balances where available, reduced supplemental funding requests to a manageable level.

All without seeking tax increases to balance the budget.

Winston Churchill once said, "The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty."

I am an optimist. I am also a realist.

The realist in me recognizes the difficulties that the current economic situation has created.

The optimist in me says that together, we can work through these difficulties to create a better Idaho.

Thank you.